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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Some Seasonally Adjusted Cheer . . .

Christmas sales appear to have gotten off to a strong start despite retailers' fears. According to the Commerce Department's preliminary estimates, November's retail sales rose a seasonally adjusted 1.8 percent compared with October. What is more, October's earlier reported decline was revised upward to a 0.1 percent increase compared with the previous month. November's bulge wasn't due to the post-strike rebound in auto sales, either. New car sales last month advanced only one percent; excluding autos, total retail sales rose a hefty two percent—most of which was an increase in real volume.

Given these strong numbers, what accounts for the gloom and doom that appears to have settled over the retail scene? Merchants have been extremely nervous about this Holiday shopping season, witness the unusual spate of off-price sales across the board. The answer would seem to lie in retailers' expectations. They tend to be formed six to nine months earlier, for this is when orders must be placed with the manufacturers. For toys in particular, the lead time is almost one year. And at the beginning of 1984 when most orders for today's merchandise were put in, the economy was much stronger than it has been since midsummer.

. . . At The Nation's Stores . . .

In retrospect, the strong rise in consumer spending should not have come as any great surprise. For one thing, employment reached a record level in November, and the unemployment rate—at seven percent of the labor force—retreated to one of the lowest levels in nearly five years. Consumer buying power has been rising at a good clip and consumers' spirits are soaring. Finally, the unusually strong promotional environment has been conducive to stepped-up buying; prices of apparel, shoes, fashion accessories and many home appliances have barely budged over the past year.

Retail sales are usually determined by shoppers' outlooks on the economy in general and employment and income prospects in particular. And consumer surveys show that there is general satisfaction with the economy. The Conference Board's consumer confidence index is now back to where it was during the second quarter of this year, when the pace of business was advancing at a 7.1 percent seasonally adjusted annual rate. Not only do more respondents view their present situation as improving, their expectations for the near term are rosy as well. More than 29 percent of those surveyed feel that business conditions are good now—the highest proportion in nearly six years—and increasing numbers expect employment opportunities to improve further and their incomes to rise.

. . . Reflects Shoppers' Confidence . . .

The jump in the consumer confidence index was undoubtedly a reflection of last month's improvement in the job markets. Nearly 300,000 people found jobs, which resulted in a record 107.6 million people working. In fact, since the end of the 1981-82 recession, payrolls have expanded by nearly seven million workers.

Although manufacturing employment rose only modestly last month, it is encouraging to note that the average workweek in this sector rose by 0.3 percent. This, in turn, led to November's pickup in industrial production of 0.4 percent. Overall, the index of aggregate weekly hours worked by all production workers rose by 0.7 percent in November, compared with October. When that is combined with last month's increase in hourly earnings, the resulting 0.9 percent jump in weekly earnings surely gave November's wages and salaries a good-sized boost.

Even more important, disposable incomes adjusted for inflation have been expanding at a fast pace. Although the year-over-year advances have shrunk a bit to 6.7 percent from the first half's 7.3 percent, the third quarter's gain remains one of the highest since the early 1970s. And since prices of food, apparel and energy have risen more slowly than most components of the consumer price index, people's discretionary incomes have probably risen even faster.

One of the most important recent contributors to consumers' rising buying power has been

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interest income. Currently, personal income from interest is nearly 20 percent higher than a year ago—no doubt the only silver lining in the high interest rate cloud. In October, 15 percent of people's incomes was derived from interest receipts, up from 14.7 percent in the third quarter and an average of 13.7 percent in 1983. Perhaps because of this boost to their incomes, consumers may be less reluctant to increase purchases on credit. The ratio of consumer installment debt to disposable income has risen to 17.0 percent, and is fast approaching its 1979 peak. Meanwhile, the aggregate savings rate has bounced from the most recent low of 5.7 percent reached last May, to 6.4 percent in October.

. . . And Improved Financial Prospects

Retailers report that most purchases are not extravagant, but rather reflect a "back-to-basics" mood. Traditional gifts appear to be making up the bulk of this season's purchases. Items selling well include toys, adult board games, jewelry, fragrances and lingerie. Sales of men's and women's fashion apparel and accessories rose by nearly four percent in November, compared with October. Household appliances are still selling at near-record levels, with microwave ovens being a particularly popular Christmas gift; sales are 60 percent higher so far this year than a year ago.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/12/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	167.140	+ 2.201	+ 7.823
Loans to Depository Inst.	3.301	- 1.052	+ 2.672
Float	1.789	+ 1.276	+ .206
Total Reserve Bank Credit	183.663	+ 2.741	+13.976
Treasury Deposits with Federal Reserve Banks	3.331	+ .745	+ .065
Currency in Circulation	180.790	+ 1.077	+11.172
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	118.850	- 1.586	+ 6.970
	12/5/84		
Member Bank Reserves:			
Total Reserves Held	38.954	+ .116	+ 3.655
Excess (Deficiency)	.899	+ .297	+ .394
Net Free Reserves	.422	+ .395	+ .268
		% Change Since Three Months Ago*	**% Change Since Year Ago**
Monetary Aggregates †			
M1 (12/3/84)	547.1	+ 2.2‡	+ 4.8‡
M2 (November '84)	2,346.2	+ 9.6	+ 7.5
M3 (November '84)	2,955.0	+ 11.5	+ 9.6
Domestic Nonfinancial Debt (3rd Q'84)	5,760.0	+ 11.7	+ 12.9

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/14/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.00%	8.20%	8.50%
* Federal Agencies	8.58	8.89	9.71
* Project Notes—Taxfree (46% Taxable Equivalent)	9.81	9.63	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.70	9.00	9.65

‡ Finance Company Paper—Prime

5- 14 days	8.25%
15- 29 days	8.38
30- 59 days	8.60
60- 89 days	8.55
90-179 days	8.40
180-239 days	8.40
240-270 days	8.40

‡* Bankers' Acceptances

Jan.	8.62%
Feb.	8.62
Mar.	8.62
Apr.	8.73
May	8.75
Jun.	8.73

‡ Industrial Paper—Prime

30- 89 days	8.58%
90-120 days	8.40

†Federal Funds Effective Rate 8.22%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84	$ 3,695	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84	$ 1,647	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84	1.9	7.1	6.8
Change in Consumer Prices*	Oct '84	4.8%	4.8%	4.8%
Change in Producer Prices*	Nov '84n	6.0%	- 2.4%	- 1.2%
Civilian Employment (Thousands of Persons) †	Nov '84	105,872	105,586	102,606
Unemployment as % of Civilian Labor Force †	Nov '84	7.2%	7.4%	8.4%
Personal Income*	Oct '84	$ 3,086	$ 3,068	$ 2,815
Leading Indicators Composite Index (1967=100)†	Oct '84	163.8	165.0	162.4
Industrial Production Index (1967=100) †	Nov '84n	165.0	164.3r	155.3
Net Change in Consumer Installment Credit †	Oct '84n	$ 6.28	$ 4.28	$ 5.09
U.S. Merchandise Trade Balance †	Oct '84	-$ 9.18	-$ 12.65	-$ 8.43
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Oct '84	1,515	1,679	1,672
New Construction Expenditures*	Oct '84	$ 315.8	$ 310.5	$ 267.9
Total Business Inventories †	Oct '84n	$ 565.3	$ 560.6r	$ 509.2
Total Business Sales †	Oct '84n	$ 410.8	$ 410.5r	$ 382.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

Color television purchases are running 15 percent ahead of last year, with the expensive projection models up nearly one third. Sales of video cassette recorders in November were running nearly double the rates of a year ago, with year-to-date sales surpassing last year's by more than 80 percent. The Electronics Industries Association expects purchases of pre-recorded movie tapes to be up some 80 percent this year. Video cameras are selling 20 percent faster than in 1983.

But even if this surge in consumer spending continues through December, retailers' profits may well be disappointing, since many discounted substantially from list prices. Nevertheless, any improvement in final demand should give merchants the confidence to expand inventories, which will ultimately translate into stepped-up activity in the nation's factories. Some of this rebound, however, will flow overseas, since an increasing chunk of people's spending is going for imports. Because of the strong dollar which makes foreign-made goods less expensive, imports of consumer goods so far this year have increased by 40 percent compared with the same period of 1983. They currently represent ten percent of consumers' purchases—up from less than eight percent a year ago.

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Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (11/28/84)	158,225	– 794	+12,334
New York City (12/5/84)	34,259	+ 311	+ 3,102
Commercial Paper (12/5/84)	236,927	– 1,143	+54,924

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/28/84)	247,762	– 788	+28,407
New York City (12/5/84)	64,160	+ 704	+ 5,908

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/28/84)	537,788	– 3,610	+94,144
New York City (12/5/84)	146,991	+ 4,306	+24,176

Financial Markets

	Friday 12/14/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.54%	– .16	– .91
180-Day Bills†	8.86	– .24	– .99
Longest Bills†	9.41	– .19	– .64
Recent Issues:			
10³/₈s 11/30/86	10.32	– .18	
11³/₈s 9/30/88	11.01	– .14	
11⁵/₈s 11/15/94	11.63	– .02	
11³/₄s 11/15/14	11.63	– .02	
Municipals:			
Bond Buyer–20 Bond Index* (12/13/84)	10.00%	+ .05	– .04
Blue List Total ($ Million)	$2,630	+$ 745	+ $876
30-Day Visible Supply ($ Million)	$2,154	+$ 442	– $715
Total	$4,784	+$1,187	+ $161
Corporates:			
Moody's Aa Composite (12/13/84)	12.59%	+ .04	– .26
30-Day Visible Supply ($ Million)	$1,710	+$ 230	– $ 10
Stocks:			
Dow-Jones Averages:			
Industrials	1,175.91	+ 12.74	– 66.26
Transportation	534.99	+ 12.29	– 55.16
Utilities	144.59	– .06	+ 13.57
65 Stocks	473.60	+ 5.82	– 23.04
Standard and Poor's 500 Stocks	162.69	+ .43	+ .30
N.Y.S.E. Composite Index	93.92	+ .40	+ .06
N.Y.S.E. Avg. Daily Vol. for Week (000's)	83,264	– 5,512	– 1,926

* 46% Taxable equivalent 18.52%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/14/84	Week Ago
Overnight	8.25%	8.50%
1 month	8.81	9.00
3 month	9.00	9.25
6 month	9.50	9.63
1 year	10.19	10.25
EUROCOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.75%	11.75%
Long Term (7 to 15 yrs.)	11.85	11.85

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/14/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01605	62.30
Canada	.7567	1.3215
Denmark	.09038	11.0650
France	.1052	9.5075
Germany	.3222	3.1035
Italy	.0005230	1912.00
Japan	.004034	247.88
Mexico	.004630	216.00
Netherlands	.2855	3.5025
Switzerland	.3909	2.5585
U.K.	1.1895	.8407

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